

**CITY OF SAN ANTONIO  
INTERDEPARTMENTAL MEMORANDUM  
ECONOMIC DEVELOPMENT DEPARTMENT**

**PUBLIC HEARING  
TIME CERTAIN  
ITEM NO. 8(A-B)  
6:00 PM**

**TO:** Mayor and City Council

**FROM:** Ramiro A. Cavazos, Director, Economic Development Department

**THROUGH:** Terry M. Brechtel, City Manager

**COPIES:** J. Rolando Bono, Andrew Martin, Trey Jacobson, Steve Nivin, File

**SUBJECT:** Tax Phase-In Agreement with First Health Group Corporation

**DATE:** June 24, 2004

**SUMMARY AND RECOMMENDATIONS:**

This item provides for: (1) a public hearing and consideration of an ordinance designating the First Health Group Reinvestment Zone consisting of 8.94 acres at 3900 Rogers Road in Westover Hills, and (2) consideration of an ordinance approving and authorizing execution of a Tax Phase-In Agreement with First Health Group Corporation ("First Health") to exempt 100% of ad valorem taxes for 6 years on real property improvements of approximately \$5.5 million.

Staff recommends approval of these ordinances.

**BACKGROUND INFORMATION:**

First Health, based in Scottsdale, Arizona, is a national managed care company serving group health, worker's compensation, and federal and state employees' health benefit plans. The core of the company's business is the First Health Network, which is the nation's largest directly contracted PPO network consisting of over 4,430 hospitals and 430,000 healthcare professionals. Presently, the company has over 6,000 employees at 35 locations nationwide. The company employs over 600 people in Texas with facilities in San Antonio, Houston, and the Dallas area.

First Health currently occupies a 50,000 square foot facility at 601 Loop 410 NW. At this location, First Health employs 235 full-time personnel, with a payroll of \$9.3 million. This facility will not meet the company's plans to expand operations. Therefore, the company is considering locations in San Antonio, as well as locations in Florida and Arizona for consolidation and expansion. A final facility location decision has not yet been made.

The preferred San Antonio location involves the construction of an 80,000 square-foot facility situated on 8.942 acres at 3900 Rogers Road in Westover Hills. The project will result in the retention of 235 full-time jobs in San Antonio plus the creation of at least 365 new jobs over 6 years. These jobs would include clinical management, claims processing, information systems, member services inquiries, human resources and facility services. As an incentive to locate and

construct this new facility in San Antonio, First Health has requested a 6-year, 100% tax phase-in on \$5.5 million in real property improvements.

### **POLICY ANALYSIS:**

This project meets the guidelines for investment, job creation and wages. To qualify for a tax abatement on real or personal property, a company must invest at least \$1.0 million in real property improvements **and** create at least 25 new jobs. If San Antonio is selected for the facility, First Health would invest approximately \$5.5 million in real property improvements and \$5.5 million in personal property (taxes on the personal property are not proposed to be abated). The company would create an additional 365 new jobs with an additional annual payroll of \$13.7 million and increase First Health's full-time employment total to 600 jobs with an estimated annual payroll of \$23 million. This project exceeds the City's wage standard requiring all new employees to receive at least \$8.85/hour, and after one year, at least 70% of new employees must receive at least \$10.70/hour.

<b>Tax Phase-In Criteria for Real Property Tax Phase-In</b>	<b>First Health Project</b>
Investment $\geq$ \$1 million in real property	\$5.5 million in real property
<b>AND</b> Job Creation $\geq$ 25 New Jobs	365 New Jobs over 6 Years
<b>AND</b> Benefits Package	Yes
<b>AND</b> 100% of new jobs $\geq$ \$8.85/hr	Yes
<b>AND</b> 70% of new jobs at or above \$10.70/hr within one year following project opening	Yes

The project supports the City's *Strategic Plan for Enhanced Economic Development* by encouraging the retention and expansion of successful local businesses. Additionally, this project promotes growth in the targeted industry of high-level business services supporting the community's growing healthcare industry, as well as the retention and creation of good-paying jobs for our community. Of the 365 new jobs: (a) 21 are managers at an annual average wage of \$63,565; (b) 50 are skilled jobs at an average of \$48,900/year; and (c) 294 are semi-skilled jobs at an average of \$34,674/year.

First Health offers a benefits package, which includes medical, dental, vision, prescription drug, and life insurance for employees and dependents. In addition to the standard benefits, First Health also offers long-term disability, 401K plan, employee stock ownership, medical leave, vacation, paid holidays and personal leave. Employees from the facility participate and support several community-based programs. These include the United Way, Salvation Army Angel Tree Program, Susan B. Komen Race for the Cure, Cystic Fibrosis Walk and a School Supply Drive for the Ella Austin Community Center. First Health intends to continue its outreach to hire economically disadvantaged individuals through the Alamo Workforce Development.

### **FISCAL IMPACT:**

The following table details the estimated fiscal impact to the City resulting from the project. The City currently receives approximately \$9,835 per year in taxes on the existing land value of \$1.7 million. Total property taxes abated over the 6-year term of the tax phase-in are estimated at \$157,615. First Health will pay new property taxes estimated at \$154,926 over the 6-year tax phase-in term on the unabated personal property investment, and new taxes on the real and personal property estimated at \$235,229 during the 6 years following the abatement period. Overall, the City would realize \$390,155 in net additional property tax revenues over a 12-year period as a result of this project, and collect an estimated \$384,000 in sales tax revenues. CPS revenues to the City are forecasted to be \$756,846. New revenues to the City over this period will be approximately \$1,531,093, and the overall net benefits to the City are estimated to be \$1,373,478.

Years	<u>New</u> Property Taxes + Sales Taxes + CPS Revenues (Present Value)	Real Property Taxes Abated (Present Value)	Net Benefits (Present Value)
1-6	\$ 796,122	\$ 157,615	\$ 638,507
7-12	\$ 734,971	0	\$ 734,971
<b>Total</b>	<b>\$ 1,531,093</b>	<b>\$ 157,615</b>	<b>\$ 1,373,478</b>

The phase-in contract will allow the City to recapture up to 100% of abated taxes from First Health during the 6-year term and on a declining basis for another 4 years. Recapture provisions apply if First Health relocates its business activities outside the City limits or ceases conducting business activities in the City limits, unless First Health relocates its activities within the City limits as a result of further expansion. The City may also terminate the agreement if First Health fails to retain the existing 235 jobs and create the additional 365 new jobs.

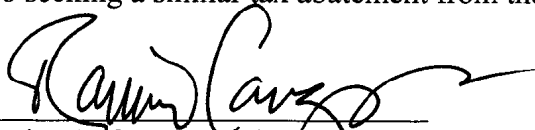
### **COORDINATION:**

The Economic Development Department (EDD) staff has met with the City Attorney's Office to finalize the agreement. EDD has coordinated with relevant City departments and determined that the project has no appreciable impact on the delivery of City services. These departments include Public Works, Development Services, Planning, Finance, Police and Fire. EDD has also coordinated this project with Bexar County, CPS, SAWS, Bexar Appraisal District and the Economic Development Foundation.

This abatement request was presented to the Economic and Human Development Committee on June 1, 2004. The Committee directed staff to bring the request to the full City Council for further discussion and consideration.

**SUPPLEMENTARY COMMENTS:**

The Discretionary Contracts Disclosure Forms are attached. First Health Group Corporation is also seeking a similar tax abatement from the Bexar County Commissioners Court.



Ramiro A. Cavazos, Director  
Economic Development Department



J. Rolando Bono  
Deputy City Manager

Approved:



Terry M. Brechtel  
City Manager

Attachments

## City of San Antonio Discretionary Contracts Disclosure\*

For use of this form, see City of San Antonio Ethics Code, Part D, Sections 1&2

Attach additional sheets if space provided is not sufficient.

State "Not Applicable" for questions that do not apply.

\* This form is required to be supplemented in the event there is any change in the information under (1), (2), or (3) below, before the discretionary contract is the subject of council action, and no later than five (5) business days after any change about which information is required to be filed.

### Disclosure of Parties, Owners, and Closely Related Persons

For the purpose of assisting the City in the enforcement of provisions contained in the City Charter and the Code of Ethics, an individual or business entity seeking a discretionary contract from the City is required to disclose in connection with a proposal for a discretionary contract:

(1) the identity of any individual who would be a party to the discretionary contract.

Not Applicable

(2) the identity of any business entity that would be a party to the discretionary contract.

First Health Group Corp.  
3200 Highland Avenue  
Downers Grove, Illinois 60515

and the name of:

(A) any individual or business entity that would be a subcontractor on the discretionary contract.

Not Applicable

and the name of:

(B) any individual or business entity that is known to be a partner or a parent or subsidiary business entity, or any individual or business entity who would be a party to the discretionary contract.

Claims Administration Corp.  
15400 Calhoun Drive  
Rockville, MD 20855

<sup>1</sup> A business entity means a sole proprietorship, partnership, firm, corporation, holding company, joint-stock company, receivership, trust, unincorporated association, or any other entity recognized by law.

(3) the identity of any lobbyist or public relations firm employed for purposes relating to the discretionary contract being sought by any individual or business entity who would be a party to the discretionary contract.

None

#### Political Contributions

Any individual or business entity seeking a discretionary contract from the city must disclose in connection with a proposal for a discretionary contract all political contributions totaling one hundred dollars (\$100) or more within the past twenty-four (24) months made directly or indirectly to any current or former member of City Council, any candidate for City Council, or to any political action committee that contributes to City Council elections, by any individual or business entity whose identity must be disclosed under (1), (2), or (3) above. Indirect contributions by an individual include but are not limited to contributions made by the individual's spouse, whether statutory or common-law. Indirect contributions by an entity include but are not limited to contributions made through the officers, owners, attorneys or registered lobbyists of the entity.

#### To Whom Made:

None

#### Amount:

#### Date of Contribution:

#### Disclosures in Proposals

Any individual or business entity seeking a discretionary contract with the city shall disclose any known facts which reasonably understood, raise a question<sup>2</sup> as to whether any city official or employee would violate Section 1 of Part B, Improper Economic Benefit, by participating in official action relating to the discretionary contract.

None

#### Signature:

*Dennis Leute*

Title: Vice President, Real Estate & Facilities

Company: First Health Group Corp.

#### Date:

5/25/04

<sup>2</sup> For purposes of this rule, facts are "reasonably understood" to "raise a question" about the appropriateness of official action if a disinterested person would conclude that the facts, if true, require recusal or require careful consideration of whether or not recusal is required.